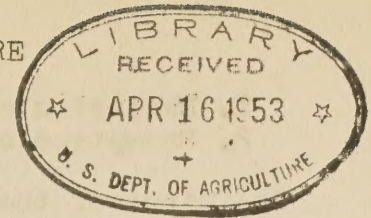


UNITED STATES DEPARTMENT OF AGRICULTURE
Extension Service
Washington 25, D. C.



IOWA LEADERSHIP CONFERENCES REPORT
1952

Leadership conferences were held in Ames, Mt. Pleasant, Lost Nation, Waterloo, Eagle Grove, Spencer, Sioux City and Atlantic. 95 cooperatives sent 240 representatives to these conferences.

The agenda was the same for all eight conferences, with John Uban of CCA acting as chairman. The morning program in the first week included:

- (1) What the New Tax Laws Mean to Farmers and Their Co-ops - led by Mr. Ed White, CCA Legal Division the first week and by Mr. L. V. Taylor, Chief Auditor, Grain Dealers Association of Iowa, the second week.
This discussion was followed by an open forum.
- (2) What the Tax Battle Means to Farmers - opened by Mr. C. R. Crews, CCA Director of Field Education - followed by group discussions and blackboard summarization.

The afternoon session was opened by Sam Thompson from the Iowa State College of Agriculture. His subject was "The Co-op Controversy - Why?" This too was followed by discussion group sessions and blackboard summary. In the second week this agenda was reversed with Sam Thompson leading off in the morning.

This report will follow the order of the agenda as used during the second week.

THE CO-OP CONTROVERSY -- WHY?

by San H. Thompson

Introduction

For some time competitors of farm cooperatives have charged that farm cooperatives do not pay their fair share of taxes. They have estimated that the income tax revenue lost to the national government is **over** \$800,000,000 per year. But the charges have gone further. Some have asserted that farm cooperatives pay no taxes of any kind.

WHAT ARE THE FACTS?

WHAT KINDS OF TAXES, IF ANY, DO COOPERATIVES PAY?

Cooperatives pay property, excise, sales, transportation, communication, and social security taxes at the same rates and in the same manner as other corporations. Cooperatives like other corporations actually do pay taxes. The present cooperative controversy relates to:

1. Exclusion of patronage refunds from income of cooperatives, and
2. Exemption of certain cooperatives from corporation income taxes.

The first of these is the more important and around it the present controversy centers.

Patronage Refunds are not exempt from income tax as a result of any law. Instead, because of well established legal and economic reasons, the courts of the nation down through the years have consistently ruled that the portion of net margins of cooperatives allocated to patronage refunds, if required by prior agreement in articles and bylaws, is not income to the cooperative at all, but is income to the members.

In one of the first cases to consider taxability of net margins in the hands of a cooperative, the Tax Court held that net margins arising from rates, tolls and charges -- of the Cooperative Bridge Company of Paducah, Kentucky, owned by certain railroads -- were excludable in computing net taxable income of the cooperative. Thus the court said that the net margins were not income to the cooperative. In another court case, Farmers Cooperative Co., Birmingham, the following headnote appears:

Patronage dividends (that is, refunds) actually distributed by a cooperative, whether in the form of cash, capital stock, certificates of indebtedness or notes, as well as those net margins of the cooperative distributed to capital reserves and merely credited or allocated to patrons under a pre-existing obligation are excludable from gross income for federal income tax purposes.

Additional cases could be mentioned to show that the courts have again and again passed on the question of whether net margins of cooperatives are taxable income. Wherever in the original business transactions there was a mandatory obligation to account to patrons for any excess remaining at the close of the year the net margins were held to be a liability of the cooperative to its member patrons and hence not taxable to the cooperative. In neither an economic nor a legal sense are patronage refunds income to the cooperative. And the legal authority comes not from laws (which are always subject to change) but from court decisions -- and from court decisions alone. If any business adjusts the prices with patrons to a point where no net is realized on them the business clearly has no profit.

However, except for those associations exempt by law - which we will discuss later - cooperatives pay both Federal and State Income Tax on all net earnings not allocated to their members. Also cooperatives pay corporate income tax and excess profits tax in exactly the same manner and at exactly the same rate as ordinary corporations on surplus and unallocated reserves, (including reserves for education), on earnings from nonmember business, on capital gains, dividends on stock paid to stockholders, miscellaneous income, and any other earnings not allocated to member patrons on a patronage basis.

Patronage Refunds Taxable to Patrons. Of course patronage refunds are income to patrons who receive them. For income tax purposes patronage refunds must be reported in the year accrued whether paid in cash, by credits in a revolving fund, by certificates of indebtedness or by preferred or common stock or merely by notice of allocation. Local cooperatives should inform patrons of refunds as they are accrued to them. Local cooperatives should include in their receipts and reflect to their patrons refunds accrued to such local cooperatives by larger cooperatives through which they buy or sell.

The economic activities of many cooperative locals produce income but by reason of court decisions (as has been shown) and also in an economic sense the income producing units (the co-ops) are not income-receiving units. If income-producing units (as distinguished from income-receiving units) were taxed, our whole taxing system would have to be revised. Furthermore if the attack on cooperatives were to be successful, farmers' cooperatives would be forced into the corporate mould as profit making institutions. Thus the unique and fundamental character of the cooperative would be destroyed. Moreover, it would change the basic concept of income. It would tax as income that which is not income.

Exempt Cooperatives. In 1926, Congress gave certain farmer cooperatives, along with many other corporations - all of which were operated in such a way as to have little or no income - the option to apply for and qualify for Federal income tax exemption. Eligible to exemption, provided they qualify and file a report annually proving continuance of their eligibility, were labor organizations, fraternities, civic clubs, churches, educational organizations, corporations owned by the U. S. government, and others in addition to farmer cooperatives. Farmer co-ops are about 2 percent of the total organizations exempt under Section 101, subdivision 12. Many and strict were the requirements for exemption. The object of Congress was to reduce to a minimum the handling of income tax returns for organizations with little or no tax to pay. More than 10,000 farmer cooperatives are eligible for the exemption but only 6,000 have applied and qualified for exemption and most of these are small cooperatives.

Prior to the passage of the 1951 Internal Revenue Act when cooperatives had been granted exemption they were freed from liability for income tax:

1. On amounts distributed as limited dividends on capital stock (dividends are limited to eight percent, or legal rates of state of incorporation -- actual payments average between three and four percent.)
2. On earnings from capital gains.
3. On business done with the government, and
4. On certain reserves required by state laws.

Recent legislation (1951) provides for taxation of unallocated reserves for all Co-ops, exempt as well as non-exempt cooperatives. It

would not be equitable nor would it be good public relations for co-operatives to seek restoration of exemption for unallocated reserves in exempt cooperatives. There is no sound economic justification for exemption at all, as there is for the present tax treatment of patronage refunds.

Before this change made by Congress in 1951, the Treasury Department estimated that income tax revenue would be increased 10 to 20 million dollars a year if farmer cooperatives were not exempt. Most of the added revenue would have come from taxation of reserves.

Before the recent change no one paid the tax on what was doubtless a substantial part of the reserves of exempt cooperatives except when the reserves were distributed. In most cases distribution probably never occurred.

There should be sharp distinction between (1) reserves for contingent costs and losses and (2) reserves for accumulating capital. If a co-operative retains savings as a means of accumulating capital, allocations should be made in the form of capital equities -- credits in a revolving fund, certificates of indebtedness or preferred stock. These are taxable as issued each year to patrons and not to the co-operative.

ARE THE COMPETITORS OF COOPERATIVES REALLY TRYING TO EQUALIZE TAXES?

Opponents of cooperatives often insist that they seek only to equalize taxation. Taxing unallocated reserves, however, was not their major objective. Their major objective appears to be taxation of patronage refunds as profits to cooperatives. If the opponents win this goal the distinctive nature of cooperatives may be largely destroyed. While pooling cooperatives would not be effected others might have to revise their margins.

The opponents of cooperatives seek to remove the economic competition of cooperatives as an alternative channel in marketing and purchasing. Their organizations supported largely by big business seek to eliminate the competition that cooperatives are giving them. The attack on cooperatives is in fact an attack on the free enterprise system. The trend in corporations has been toward larger and larger business units which tend to become monopolistic. Cooperatives have consistently worked for more democracy in business control.

WHAT SHOULD COOPERATIVES DO?

Under the circumstances what should cooperatives do? Their officers, directors, and managers should try to understand the significant dangers of the present controversy. They should try to get cooperators and others to understand the significance of cooperatives in preserving the free enterprise system. They should remember that eternal vigilance is the price of liberty. As cooperatives grow in size and strength, more intensified opposition of those who do not like their competition is likely.

It is therefore important that cooperatives gird themselves for the contest in the following ways:

First, cooperatives must build strong and efficient business units. They must have the sound objective of correcting defects in the market.

Second, cooperatives must move toward the use of sound cooperative principles. There must be good management. There must be a group of cooperators that knows what cooperation means. They must realize that protection of their interest for the long run is far more important than any current economic savings.

Third, if cooperatives are to win their economic objectives they must create a climate of favorable public opinion. Cooperative leaders and members must understand and be able to explain how cooperatives contribute to public welfare. The public sees no reason now why it should be generous to cooperatives. No longer do farmers need a concession because of poverty. Farmers' cooperatives now deserve the good wishes of the general public because they are helping the many to achieve the ideals of a free America. Cooperatives are in fact bringing about a better economy -- they are safe-guarding free enterprise.

To develop these purposes is a job for all cooperatives working together in the new Iowa Institute of Cooperation. No farmer and no cooperative can win economic liberty alone. Pooling of cooperative resources by making contributions to the Institute is in order. Many cooperatives have done things that make them vulnerable to attack. Cooperatives need to strive for a high degree of perfection in cooperative practices -- 80 to 100 percent should be the minimum goal. They must learn to act in the public interest. In many cases cooperatives must learn again the meaning of the word -- "equitable". If their practices are not "equitable" cooperatives expose themselves to attacks by an outraged public. Let us not forget that marketing cooperatives might be eliminated by the repeal of the Capper-Volstead Act of February 18, 1922.

For many years some profit seeking traders have tried to destroy cooperatives. Recognizing the unjustness of these attacks, the Congress of the United States passed the Capper-Volstead Act -- and it truly is the "Great Charter" of agriculture. It reaffirms the right of farmers to use the cooperative corporation as their marketing agent. It clarified the right of cooperatives to federate in mutual undertakings and to use the revolving fund method of financing. In the public interest and in the interest of the farmers, cooperative leaders and farmers must strive to deserve and preserve this "Great Charter".

Mr. Thompson's talk was followed by group discussions. The questions were as follows:

1. Does a co-op create income?
2. Whose income?
3. Who should pay the tax on this income?

In all eight conferences there was agreement. Co-ops, they said, did create income. This income belonged by prior agreement to the members. Therefore, the tax on said income should be paid by the members of the cooperatives as individual income receiving units. Some of the net savings of the co-ops could, by a vote of the members in annual meetings, be turned over to the cooperative in the form of unallocated reserves. Any part of the savings so voted would then be considered as legal income to the cooperatives and therefore it is taxable income.

During this discussion it was brought out rather clearly that there may be two kinds of income - legal income is taxable income and economic income not taxable to the co-op but taxable in the hands of members of the co-op.

II WHAT THE TAX BATTLE MEANS TO FARMERS AND THEIR CO-OPS

by
C. R. Crews

This discussion kicked off by Mr. Crews with the following points:

1. We are in a conflict - a conflict between two forms of business - profit vs. non-profit business.
2. Conflict arises out of the fact that:
 - (a) Co-ops can no longer be ignored. The first inclination on the part of profit business was indifference - "Let the farmers go into business - they will fail, so why worry."
 - (b) But co-ops did succeed - have grown up into tough competition, so now profit interests oppose co-ops. They want to destroy this form of tough competition by taxing away the savings before distribution. There is belief that members would leave the co-op if the savings were liquidated - non-existent. But co-ops have been successful enough that farm members are beginning to appreciate the less tangible form of savings as a result of cooperation.
 - (c) Co-ops then continue - continue to struggle against opposition - a struggle for recognition and general acceptance by the public.
3. The N.T.E.A. will continue its fight, maybe along the following lines:
 - (a) Taxation of all non-member income or savings - via example of recent legislation in Colorado.
 - (b) Withholding tax on savings. They almost won this type of legislation.
 - (c) To get rid of whatever minor tax exemptions that still exist for "tax exempt" co-ops.
 - (d) Ultimate aim - tax savings before distribution.

4. Means co-ops must do three things:

- (a) Carry on constant education and information programs for members and the general public alike. Keep telling the co-op story - show facts - we do pay taxes.
- (b) Organization on local, county, state and national levels to carry our side of the issue to our representatives.
- (c) Quick, direct action when issues arise - opinion from the "grass roots" expressed through personal contact with legislative representatives, by letters, telegrams, etc. Perpetual vigilance is the price for our freedom to cooperate. Support the Iowa Cooperative Institute.

After these comments group discussions took place on the question-
What should farmers do to protect their cooperative organizations?

- 1. Get the facts on taxes paid by co-ops - gather these facts on local, county wide and state wide levels.
- 2. All co-ops sent their tax statistics to the Iowa Institute which will then publicize them.
- 3. Delegations of Iowa farmers - meet and talk with representatives, give them the facts on taxes paid.
- 4. Each local co-op inform its own members - its own community.
- 5. Organize the co-ops on a county level to publicize facts in the county and contact county officials. Hold regular meetings of all co-ops in county.
- 6. Cooperative research - taxes and other matters related to co-ops in the state.
- 7. Post taxes paid in place of business - prominent place so all can see.
- 8. Use local newspapers.
- 9. Hold membership meetings - other than annual meetings - use discussion group methods to inform them.
- 10. Educate and inform members about the opposition - N.T.E.A.
- 11. Carry on Youth Program.
- 12. Use radio programs to inform the public where feasible - television.
- 13. Use Educational Committee to initiate information program and public relations.
- 14. Educate business men in your own communities - board members, managers, and others. Visit and talk to them.
- 15. Letters to your legislators - state and national.
- 16. Join and use services of the Iowa Institute.
- 17. Supply members with co-op newspapers and bulletins.
- 18. More joint member meetings - leadership conferences.
- 19. Distribute copies of financial reports at annual meetings.
- 20. Put co-op textbooks into all schools.
- 21. Develop the interest of our women in the co-op and its problems. Use their skills and talents to build co-ops.
- 22. Educate members in the fundamentals of cooperation - create loyalty.
- 23. Instruct members to enter co-op savings allocated or paid to them on their income tax reports.

24. Help elect federal and state representatives who are co-op minded - who know agriculture and its problems. Find out about prospective legislators as soon as they are nominated - how they stand on co-ops. Give them facts.
25. Proper adjustment and distribution of regional savings - this would help take away some of the prestige of N.T.E.A.
26. Ask for more help from the Extension Division of the state college.
27. Work with the young farmers. Help them to understand the need of cooperation.
28. Get members to think about the significance of their co-ops. What would happen if co-ops were destroyed?
29. Managers and directors must keep themselves informed on what is going on, and be ready for direct action.

John Uban summed up the discussion by saying that we must do everything the N.T.E.A. has done - but on the opposite side of the fence. Research, information and organized action.

To emphasize the discussion amendments to the co-op law which was to follow, co-ops represented at the meetings were to bring tax information. This was placed upon the board. At the meetings 95 co-ops were registered - actually more than that number were represented since some were directors on two or more boards. Of those present 46 presented some information as can be seen from the following list taken from the board at the meeting. Even this partial list shows thousands of dollars in taxes paid directly or collected by the co-ops for the state or federal government.

SOME TAXES WE PAY

	Federal and State Income	Property taxes	Social Security	Others	Sales and Other Collected
1.	\$ 475	\$ 800	\$ 1,530	\$ 331	\$ 8,000
2.	3,100	100	75	-	6,890
3.	3,790	125	120	-	-
4.	190	-	-	-	-
5.	450	450	180	-	1,400
6.	-	1,600	1,300	-	48,000
7.	2,400	1,930	1,660	300	-
8.	3,097	780	-	-	75,000
9.	1,164	940	150	-	500
10.	200	500	325	-	25,000
11.	2,100	-	1,500	-	50,000
12.	900	110	-	-	-
13.	1,000	550	600	-	14,000
14.	1,500	400	1,500	-	400
15.	30	2,395	800	10,000	71,200
16.	1,400	800	450	-	140
17.	1,300	1,200	800	-	250
18.	4,600	2,309	175	775	392
19.	1,250	925	-	-	40,000
20.	2,200	1,200	-	-	100,000
21.	13,400	6,183	-	2,224	100,000
22.	4,000	2,200	750	-	100,000
23.	500	1,100	1,250	-	111,000
24.	15,000	3,600	4,500	-	11,200
25.	-	5,900	2,160	-	3,000
26.	-	-	-	5,400	-
27.	5,000	1,700	1,200	-	250,000
28.	2,100	425	-	-	4,000
29.	1,650	675	-	-	42,000
30.	4,125	2,400	800	-	8,000
31.	1,800	5,200	300	-	4,000
32.	7,400	4,000	1,000	-	80,000
33.	-	2,000	1,000	-	90,000
34.	1,500	1,800	-	-	-
35.	2,400	9,700	600	-	1,000
36.	8,100	600	1,200	-	-
37.	1,625	3,200	450	-	4,000
38.	14,320	-	2,800	680	1,000
39.	700	-	4,500	3,000	20,000
40.	-	450	350	-	-
41.	5,000	340	2,400	1,200	105,000
42.	3,900	4,487	688	331	55,000
43.	2,350	1,400	420	-	-
44.	425	1,500	811	531	46,000
45.	-	All Taxes Paid		140,000	Not Broken Down
46.	-	All Taxes Paid		140,000	Not Broken Down
<hr/>					
Totals	126,441	75,974	38,344	304,772	1,476,372

This listing fails to show that co-ops pay a feed tax of 5 cents a ton or the fact that grain is taxed each time it is handled by some new owner for sale - could be two or more times within the state. If sent out of state perhaps only once. This grain tax is 1/40 of a cent per bushel - 4 mills a bushel - on wheat, oats, barley, corn, etc. How much this tax would amount to no one knows. It would be a sizeable amount. This is sure.

III 1951 AMENDMENTS TO THE TAX LAW AND OTHER RELATION TO THE DISTRIBUTION OF CO-OP SAVINGS

Mr. White and Mr. Taylor who led these discussions agreed in their interpretations of these amendments and the treasury regulations but approached the subject a little differently.

Mr. Taylor started off by a simple definition of a co-op followed by a description of a co-op as a partnership - as a corporation.

A co-op, he said, is a group of people who have pooled their time and resources to do a job collectively that they could not do individually.

A co-op is a partnership - 500 partners - who then create a 3rd person - the co-op. This legal person is their agent hired by them to transact the business.

When you bring in this 3rd person you start your tax problem. The co-op splits the savings among the 500 partners. But someone gets the idea that the 3rd person - the co-op - gets something and that this something is taxable income. But it all depends on what this 3rd person is told to do whether or not it has a taxable income.

This is usually the general reserve fund (umbrella account) and perhaps the educational reserve - both are taxable. We keep the rest for ourselves as members. We pay the tax on this. It is our income.

The new tax rules, frankly, have not done anything harmful to co-ops - either the exempt or the non-exempt co-ops. The amendments, in fact, speak only of the tax exempt co-ops - but we assume they really apply to all co-ops alike. The law actually strengthens the position of the co-op. It recognizes the right of co-ops to pay a patronage dividend, in cash or any other form we desire. It tells us clearly who is liable for tax payments. There are two kinds of patronage savings - producer and consumer. You report on products marketed plus savings on production tools and supplies - not on consumer savings.

Now we will let Mr. White tell us the rest of the story since both speakers outlined the amendments and changes in the regulations in about the same way.

1951 CO-OP INCOME TAX AMENDMENTS

The amendments made certain changes in the basic federal income tax liability of farmers cooperatives. In addition, two new reporting

requirements have been imposed upon farmers' cooperatives, one by amendment to the basic law and the other by amendment to Treasury Regulations. The discussion of 1951 changes will be facilitated by treating separately the changes in basic income tax liability and the reporting requirements.

In discussing first the changes in the basic income tax liability of farmers cooperatives, it will be helpful to further separate the discussion as to the effect on exempt cooperatives and on non-exempt cooperatives. It is possible then to dispose of the problem as it relates to non-exempt cooperatives by saying that, by and large, the amendments have no effect on the federal income status of non-exempt cooperatives. They already pay taxes on all unallocated reserves.

Under new sub-paragraph (B) of Section 101(12) farmers cooperatives qualifying for exemption under Section 101(12)(A) become subject to federal income tax on normal net income and surtax income (but not on excess profits) arising from any operating funds not paid out to patrons; or not allocated and disclosed to them, or not paid out as dividends on capital stock. This means that all net savings of exempt cooperatives, regardless of the source, which are not used to pay dividends on capital stock, must be allocated to the patrons, on the basis of patronage, or else be taxable as the income of the cooperative. Thus, all unallocated reserves or surpluses will now constitute taxable income to the exempt cooperative. If all net savings are allocated to the patrons on the basis of patronage, it will not matter that a portion of such net savings be extraneous income, such as rents, investment income, government storage, etc., not resulting directly from products marketed for patrons or from goods or services distributed to patrons. Under the 1951 amendments, the exempt cooperative is also allowed to take amounts paid as dividends during the taxable year upon capital stock as "deductions from gross income" in computing net income. The tax credit to be given for dividends on capital stock is given for dividends actually paid during the taxable year. Thus, an association whose fiscal year closes on December 31, 1952, will claim as a deduction for such fiscal year not the stock dividends declared at the annual meeting held early in 1953 but will claim as a deduction the stock dividends actually paid to members during 1952 calendar year.

Where patronage refunds are allocated after the close of the taxable year, as will be the case in almost all cooperatives, they will never the-less be regarded as having been made or allocated on the last day of such taxable year, if made or allocated on or before $8\frac{1}{2}$ months following the close of such taxable year.

Therefore, if a farmers cooperative association, exempt under Section 101(12)(A) uses a part of annual net savings to pay a dividend on capital stock and allocates the entire remainder of such annual net savings on the basis of patronage, it will have no taxable income.

Beginning with the calendar year 1951, Section 314(c) of the Revenue Act of 1951 (amending Section 148 of the Internal Revenue Code) requires all farmers marketing and purchasing cooperatives, of both exempt and non-exempt types, to file an Information Return to the

Treasury Department showing the name and address of each patron to whom was paid or allocated patronage refunds amounting to \$100 or more during the "calendar" year. The Return must also show the exact amount so paid or allocated to each such patron. Thus, an association which closed its fiscal year on June 30, 1951, and which, at that time, allocated net savings to patrons in the form of patronage refund must, on or before February 28, 1951, file its Information Return showing patronage refunds paid or allocated during the calendar year 1951. Thus, on each February 28 the cooperative reports patronage refunds paid or allocated during the preceding year, without regard to what portion of the cooperative's fiscal year the cooperative may be in on February 28. The cooperative completes and files Treasury Form 1099 for each member and patron receiving a patronage refund. It also files Treasury Form 1096, which is a summary of all the forms 1099. The forms 1099 are attached to form 1096.

(The time for filing was extended to May 15 the week following these discussions.)

By amendment to Treasury Regulations, each cooperative also reports on February 28 (May 15) dividends paid on capital stock during the preceding calendar year. In the case of reporting dividends on capital stock, we must distinguish between the requirements for exempt cooperatives and the requirements for non-exempt cooperatives. The exempt cooperatives, including R.E.A. cooperatives, report only dividends on capital stock of \$100 or more. The non-exempt co-ops, for calendar years before 1951 report only dividends on capital stock of \$100 or more but for the calendar year 1951 and after, the non-exempt co-ops report all dividends on capital stock of \$1.00 or more. The forms to be used for reporting dividends paid on capital stock are the same as those used for reporting patronage refunds, Form 1099. Send in with form 1096.

Thus, a cooperative association which closes its fiscal year on June 30 and which shortly thereafter, at its annual meeting, declared and paid dividends upon capital stock, will on February 28, 1952, (now May 15) report to the Treasury Department dividends on capital stock paid during the calendar year ending December 31, 1951.

Cooperative attorneys and auditors have always taken the position that where patronage refunds are not paid currently in cash but are allocated to the patron on the books of the cooperative, written notice must be given to such patrons of such allocation. In the case of a non-exempt cooperative this has been essential to the non-exempt cooperatives' right to exclude such patronage refunds from gross income. Under the 1951 amendments, it will now be necessary for exempt cooperatives to make such written notifications to patrons of patronage refunds allocated to patrons whether represented by book credits, shares of stock, revolving fund certificates, Certificates of Indebtedness, or other means.

There has been some disagreement, in the past, as to whether the patron-farmer must report in his tax return patronage refunds allocated to him but evidenced by book credits, shares of stock, or revolving fund or other certificates, although, the weight of opinion has

been that such patronage refunds must be reported. It would seem that there can no longer be any question of reporting patronage refunds so allocated. In that regard, the 1951 addition of Your Federal Income Tax, prepared by the Treasury Department, on Page 57 contains the following:

"Patronage dividends. Many farmers market produce and buy equipment through cooperatives. Frequently in such transactions, they receive patronage dividends. These dividends must be reported for income tax purposes. Farmers who transact business in this manner may report their patronage dividends as income, irrespective of whether they buy or sell through the cooperative. Their only other choice with respect to patronage dividends is to apply such income as an offset against those items purchased through cooperatives which constitute legitimate business expenses. However, patronage dividends received as rebates for purchases of items not used in your business should be omitted from your tax return."

Where the patronage dividend is attributable to an item which may be properly capitalized by the farmer, then such patronage refund will not constitute direct income to the farmer for the taxable year in question but will have the effect of reducing the cost basis for such capital item for future depreciation.

During the question periods many questions were asked on many personal and co-op problems related to these amendments. The following illustration was used - different figures in each week to show more clearly the difference between how a profit corporation and a co-op pays taxes.

1. The Profit Corporation.

\$25,000	Net <u>profit</u> .
30%	Corporation Tax - Federal Income Tax
<u>7,500</u>	The tax paid

17,500 Undistributed may be divided as directors who represent the investors decide.

8,500 To reserve (tax already paid)

8,500 Distributed as stock dividend. Persons receiving this stock dividend, add this to personal income and again pays a tax on this additional income.

2. The Co-op.

\$25,000 Net savings: Distributed as follows by members.

2,500	To supply reserves
<u>1,250</u>	To educational reserve

3,750

1,250

\$5,000

As interest on stock

Taxable income to the co-op at rate of 30% -

\$1,500 tax paid.

\$20,000 Remaining savings distributed to the members in proportion to patronage.

When distributed - no matter what form - individual member reports his share on income tax forms. Pays whatever tax is necessary.

The whole discussion was further summarized in the following chart on blackboard by C. R. Crews.

only 1 copy
available
- see Reserve
copy

During the discussion periods many questions were asked on many personal and co-op problems related to these amendments. The following illustration was used - different figures in each work to show more clearly the difference between how a profit corporation and a co-op pays taxes.

1. The Profit Corporation.

Net profit	\$25,000
Corporate tax - Federal income tax	5,000
The tax paid	5,000
Undistributed net profit divided as dividends and reported on investors' returns	20,000
To reserve (tax already paid)	5,000
Distributed as stock dividend. Personal tax on this stock dividend, add this to personal income and again pays a tax on this additional income.	5,000

2. The Co-op.

Net savings distributed as follows by members:	\$25,000
To equity investors	5,000
To educational reserve	1,000
To interest on stock	1,000
Taxable income to the co-op at rate of 30%	18,000
3,000 tax paid	3,000